Budget 2026

Not Chasing Big Tickets, But Big Ideas

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Holistic push in AI to complement Tech upstream push. Budget 2026, which unveiled a RM419b expenditure, continues to nudge the tech eco-system upstream, benefitting potential national champions. Even so, one positive surprise in terms of commitment shown is in holistically developing the eco-system especially in Government and industry adoption of AI, which is a game changer. This includes setting aside cross-ministerial allocation, and to implement an National Action Plan 2030.

Not chasing for big-ticket items, but better well-being. Amid only a mildly increased development expenditure to RM81b, investors anticipating a mega project construction boost in the likes of more allocation into MRT3 or Johor ART details are kept waiting. Likewise, we regard the property segment measures as just incremental and won't stimulate excitement, and as such Budget 2026 isn't a usual big-ticket focused budget. Rather, the focus is on the rakyat well-being with healthcare and insurance enhancement in mind, and we are mildly positive in those sectors. Within consumer, there will be some temporary boost from cash handouts, but also a wider boost from resources poured into Visit Malaysia 2026. Odds are thus also better for tourism proxies, including GENM.

Continue to see reforms commitment, and we watch for carbon tax details. Post sales and service tax introduction and RON95 rationalisation, we continue to see reforms in the increased health-related taxes, and a discipline to stick to no longer extending incentives for electric vehicles (CBU). This allows government to stay prudent and to meet fiscal deficit targets. Carbon tax commitment is also lauded, though without details and pose slight uncertainty in the near term especially for high emitting sectors.

Beneficiaries. Sectors regarded as positive are tech, automotive, utilities and renewable energy, and water. For the rest, which are mildly positive to neutral on, we continue to see room, nevertheless, for tactical positioning in sectors that have gained pre-Budget. Anecdotal evidence shows tendency for the market to generally give back some grounds post budget (1-month horizon).

Small strides into areas of bigger-potential

Focus on quality. In the first Budget of the 13th Malaysia plan, the unveiled RM419.2b Federal Budget for 2026 (comprising RM338.2b for operating expenditure and RM81b for development expenditure) reflects just modest c2% growth. For more on Kenanga's economics view and forecast, including our view of a 4.2% GDP growth for 2026 (MoF projection of 4.0%-4.5%), please see *"Economic Viewpoint - Malaysia 2026 Federal Budget".* However, there were quality decisions made in our view, where government has continued to show some will for reforms, and to be able to make available funds into more catalytic area, for instance in a RM5.9b allocation of a cross-ministerial adoption of AI. There was also strengthening of the enablers, such as the continued commitment into renewable energy, and focus on Energy Transition, such as emphasizing the roll-out in ASEAN power grid.

More holistic push for the AI eco-system. The cross-ministerial allocation of AI budget to strengthen research, development, commercialization and innovation shows a strong commitment to AI adoption. **GAMUDA** (OP; TP: RM6.13) in partnership with **DNEX** (Not Rated) stand in our view as potential beneficiaries of the RM2b Sovereign AI Cloud project, given their partnership to offer air-gapped Google Distributed Cloud (GDC) services that comply with Malaysia's data sovereignty requirements. The anticipated rise in demand for ICT equipment and software is expected to benefit **VSTECS** (Not Rated) **and SNS** (Not Rated). In addition, **LGMS** (MP, TP: RM0.86), which is a leader in cybersecurity services, also stands to gain from the growing demand for cybersecurity solutions, helped by some sweetener of tax deduction in Budget 2026 for MSMEs for AI/cybersecurity upskilling. Overall, the Government will introduce the National AI Action Plan 2030. The overall holistic approach for the eco-system adoption push could also speed up the monetization of large-language model developers (such as ILMU, by **YTL** AI Labs and Universiti Malaya) among coverage companies, amid several others.

Building national champions. A continuation somewhat from earlier Budget, Budget 2026 reinforces NSS policy continuity and nudges the ecosystem upstream, and this Budget 2026 outlines the funding support to ease long-standing bottlenecks in risk capital and prototyping for Malaysia's fabless/design, IP, and advanced-packaging ambitions. We believe the 13 potential national champions highlighted by the Government earlier will be the key beneficiary, among them are **KGB** (OP, TP: RM6.15**), INARI** (OP, TP: RM2.56**), Carsem** (MPI, MP, TP: RM27.60)**, OPPSTAR** (MP, TP: RM0.50), Pentamaster (Not Rated), Vitrox (Not Rated), Greatech (Not Rated), SkyeChip, Infinecs, Experior.

Energy evolution

Auto sector BEV rollout may turn more local reliant. It was within Kenanga's expectations that the incentives on EV duty for CBU units would no longer be extended, and thus commencing 1 January 2026, CBU imported EV duties is set to rise 30%-100% (reinstated import tax at 10% to 30% of the car's price and excise duty at 50% to 100%). Coupled with a price limit of RM300,000 placed on luxury vehicle tax exemption in Langkawi and Labuan, this could see Kenanga's TIV estimate of above 800k units in 2025 intact, albeit at the risk of the motivating forward purchases before 2026. A switch to more affordable fuel-efficient vehicles and absence of EV CBU incentives extension would benefit **MBMR** (OP; TP: RM7.00) and **DRBHCOM** (UP; TP: RM0.70) given their presence in the affordable segment. More so when a 100% excise duty exemption and 100% sales tax exemption will continue for the purchase of new national cars, namely PROTON and PERODUA, by taxi and private car rental owners.

Solar shining bright, while we monitor pace of energy transition and effect to oil and gas. Against the backdrop of carbon tax, we believe this will have an indirect effect of promoting solar adoption, which continues to shine brightly on the Renewable Energy sector, where a LSS6 worth RM6b or likely equivalent to an additional 2GW will be revealed. Amid this growing pie, we like players which can command market share, and our sector REC remains **SLVEST** (OP; TP: RM3.56), where CRESS will be a driver. Budget 2026 points to RM3.5b of CRESS demand already, and in our view could also rise over time. We monitor for the pace of transition and its effects to oil and gas.

No immediate cheer for upstream services O&G players. Brent crude price of USD60-65/bbl for 2026 has been projected by the government (Kenanga Research forecast: USD67/bbl in 2026). A slower pace of electric vehicle adoption would continue to benefit **PETDAG** (MP; TP: RM21.20). Separately, **YINSON** (NOT RATED) could benefit from funding such as KWAP's Dana Pemacu through future rounds of potential fund raising for its green energy businesses. On a related note, the decline in dividends by Petronas in 2026 to RM20b from RM32b could ease pressure for Petronas' cashflow but we don't see this as translating to cheers for local upstream services sector players, given the PETROS dispute is a larger determinant.

Anticipating more details on Carbon tax, and we are watching high emitting sectors. Malaysia's plan to roll out a carbon tax in 2026, announced earlier, marks a key move in its effort to transition toward a lower-emission economy. The tax will first apply to the iron, steel and energy sectors, signalling the intent to start pricing carbon where emissions are most concentrated. While the exact rate and collection framework are still being finalised, through this early announcement, the government has stated that the mechanism will be aligned with the National Carbon Market Policy and the forthcoming National Climate Change Bill to ensure efficient implementation. We are expecting a direct tax on emissions. How effective the government channels revenue from the tax will also be key. The amount to be collected is not yet disclosed for now (but we understand it is not scoped into the published 2026 revenue estimates).

Elsewhere, we observed that Labuan IBFC has introduced the Climate Sukuk for financing of green projects where dividends can be paid in the form of carbon credits. There was also commitment by prasarana to electrify buses and adopt low-carbon public transport. Finallly, companies using locally manufactured, MyHIJAU mark-certified green technology products and services for own use will be granted a 100% green investment tax allowance.

More focused on well-being, instead of centered on usual big-ticket push

Mildly positive for consumer and consumer-related sectors. Cash assistances for 2026 (of c.RM15b) being largely similar on a YoY basis is not thus seen as a significant booster in our view. Timing-wise, the RM100 aid to be distributed in mid-February which is equivalent to 4% of average per-capita disposable income for month, could provide a temporary boost for value-focused, particularly MyKasih merchant partners that see higher footfall as consumers utilise their cash aid balances at these outlets. This accrue to the likes of **MRDIY** (OP; TP: RM2.04), and **ECOSHOP** (NOT RATED) and **99SMART** (NOT RATED)**,** although we observe that the latter may have in relative terms some exposure to the negative impact on alcohol sales from higher excise duties.

There is sufficient focus on wellbeing, with the flexibility to tap into EPF for basic medical and health insurance. The additional cheer stems from the budget boost for tourism, counting the additional allocation to the tourism sector of RM700m from (from RM550m), where the expected receipts/spending would be a mouthwatering RM329b from 47 million projected toursts (8M2025A: 28.2m). Not forgetting as well the wanderlust for locals either, with the additional RM1,000 income tax relief as a sweetener to spur domestic travel. This stacks the chips in favour of **GENM** (MP; TP: RM2.00) amid a tourism influx, and **KLCC** (for REITS).

Not a big-ticket centered Budget. Kenanga Reasearch's projection is for the spending on development expenditure to be a priority even without new mega projects, but this we expect DE to be backloaded towards 2029-2030 within the Malaysia plan. For FY26, the construction sector's benefit is seen as neutral, amid a development expenditure that is projected to rise marginally to RM81b – still sizeable but no new information was shed on the MRT3 nor was there colour on the Johor E-ART. What continues to be buoyant is in water projects, which could play to the benefits of **ENGTEX** (OP; TP: RM0.62) given its market share in pipes, amid an allocation in Budget 2026 for handling non-revenue water related matters. Separately, **WCT** (OP; TP: RM1.25) and **KIMLUN** (MP; TP: RM1.51) could benefit for new phases of the Pan Borneo and Sarawak-Sabah Link Road projects. Excitement in the property segment, on the other hand, would be more restrained given that the measures are largely extension of existing programmes rather than catalytic; our sector outlook on focusing on higher-value developments would still be rightly placed. All considered for the above, we are only mildly positive on the banking sector, supported by health of the retail segment and the sectors can also still benefit from private-public partnerships angle for project rollout amid a small growth in development expenditure.

Tactical positioning for post Budget still our playbook.

Unchanged end-2025 target. As we observed during our 4QCY25 market outlook report, four out of the past six Budget sessions saw the FBM KLCI either trended lower or remained flat after the announcement. Having seen this latest Budget, beyond the sectors we regard as positive, we won't discount some weakness in the traditional sectors that typically do well ahead of budget such as the property sector (+3%; 1-month returns) and consumer (+5%; 1-month returns), whereby for the latter this reflects clarity from overhang after RoN95 subsidy mechanism was made clear. At the same time given that we believe that the uplift to consumer stocks from the RM100 SARA cash aid is about 4% of monthly disposable income (average, per capita), and we would likely fade into gains if share prices sees a knee-jerk upwards movement.

We leave our FBM KLCI y/e target of 1,640 unchanged for now. Looking further ahead, Kenanga expects Sovereign ratings are likely to be unchanged in 2026, but we monitor for upgrade potential by 2026 if fiscal consolidation delivers tangible results and growth outperforms expectations, and leading to a meaningful improvement in the debt-to-GDP potential.

For sector and stock impact, please see exhibit 1 overleaf.

Exhibit 1 – Sector and Stock Impact			
Impact	**Sector**	**Remark**	**Proxies**
Positive	Automotive	More affordable fuel-efficient vehicles and absence of EV CBU incentives extension.	**MBMR** (OP; TP: RM7.00), **DRBHICOM** (UP; TP: RM:0.70)
	ESG	Boosts appetite for renewable energy certificates and and we will monitor for details on the implementation of carbon tax.	**BURSA** (MP; TP: RM8.00) **SLVEST** (OP; TP: RM3.56)
	Technology/AI	Boost for 13 potential national champions. Rise in demand for ICT equipment, software and cybersecurity, and wider digital-ID adoption. In addition, the government has set aside RM2b to establish a sovereign AI cloud.	**LGMS** (MP; TP: RM0.60), **KGB** (OP; TP: RM6.15), **Inari** (OP; TP: RM2.56), **Oppstar** (MP; TP: RM0.50), **GAMUDA** (with DNEX, NR); **YTLPOWR** (OP: TP: RM4.66) Not-rated names VSTECS, SNS CARSEM, PENTA, VITROX, GREATEC
	Utilities/ RE	Making solid progress towards national energy transition roadmap, including RM6b in LSS6.	**SLVEST**, **TENAGA** (OP; TP: RM17.10)
Mildly positive	Healthcare	Allocation for purchase of medicines specifically from companies that make new domestic investments, and the ability to tap into EPF for insurance needs.	**PHARMA** (MP; TP: RM0.15), DUOPHARMA
	Banks/ Financials	The listed banks are expected to only benefit indirectly through arrangements via guarantees schemes, such as with SJPP. We also see gradual improvement in insurance penetration among non-bank financials.	**AMBANK** (OP; TP: RM6.90), **HLBANK** (OP; TP: RM24.50), **LPI** (OP; TP: RM16.00), **TAKAFUL** (OP; TP: RM4.40),
	REITS	With higher allocation on tourism than previous year, retail malls and hotels in tourist spots will continue to be robust.	**KLCC** (MP; TP: RM8.93)
	Aviation/ tourism	Boost in tourism, benefitting the aviation and gaming sector.	**CAPITALA** (MP; TP: RM1.06), GENM (MP; TP: RM2.00)
	Consumer	The RM100 SARA cash aid in February 2026 could provide a temporary boost to consumption. Tourism support will also provide a boost to F&B manufacturers.	**F&N** (OP; TP: RM30.7), **NESTLE** (MP; TP: RM85.10), **MRDIY, QL** (MP; TP: RM4.52) NR – **ECOSHOP** and **99SMART**
Neutral	Oil and gas	Benefit from KWAP's Dana Pemacu through future rounds of potential fund raising for its green energy businesses.	**YINSON** (NR)
	Construction/ Materials	Overall Development Expenditure is less exciting, but accentuates Sarawak and water projects.	**GAMUDA**, **WCT**(OP; TP: RM1.25) and **KIMLUN** (OP; TP: RM1.51)
	Property	Some support to first-time house buyers, but we believe they are insufficient to materially stimulate the property market.	No meaningful proxies
	Seaport and logistics	Improvement in infrastructure to Port Klang	**WPRTS** (OP; TP: RM6.00)
	Plantation	Target mainly helps small-holders	No meaningful proxies

Source : Kenanga Research

Automotive

Driving Affordable ICEs and Localized EVs

NEUTRAL
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Impact: Positive

Budget Measures

- In the fiscal outlook and federal government revenue estimates report, MOF indicated that excise duty exemptions on completely-built-up (CBU) EVs will be removed beginning 2026.
- According to the Malaysian finance ministry's 'Fiscal Outlook and Federal Government Revenue Estimates', total government revenue from vehicle import duties, excise duties and sales tax this year is estimated to be RM11.1b, and this is expected to rise 4.5% to RM11.6b next year. The 2025 estimates can be broken down into RM630m in import duties, RM3.97b in CKD excise duties (cars plus motorcycles), RM3.27b in CBU excise duties (cars), RM2.11b in CKD sales tax (passenger plus commercial vehicles) and RM1.13b in CBU sales tax (also passenger plus commercial vehicles).
- The 100% excise duty exemption and 100% sales tax exemption will continue for the purchase of new national cars, PROTON and PERODUA, by taxi and private car rental owners.
- GLIC and GLC are driving investments worth RM16.5b for the year 2026. For example, UEM Lestra is developing solar farms in Segamat, Melaka, and Selangor, and is collaborating with PLUS to expand EV charging facilities.
- Cars over 20 years old that are no longer economical pose a safety risk. The government, together with national vehicle manufacturers, is offering a matching grant of up to RM4,000 to encourage owners to scrap old vehicles and purchase new national cars.
- The government plans to limit the vehicle tax exemption in Langkawi and Labuan to vehicles valued at no more than RM300,000 effective from 1 January 2026.
- Following the enactment of the Consumer Credit Act, the government will amend the Consumer Protection Act to include the Lemon Law element, aimed at protecting the rights of consumers who are often disadvantaged.

Our Views

- No changes to battery electric vehicles' (BEVs) initiatives i.e. sales tax, import and excise duties exemption (CKD up to 2027, while for CBU, they are set to end this year) as the government want the automakers to set-up local EV production plant which we believe is positive to national brands i.e. Perodua and Proton which already have higher localisation rate as well as government additional rebates on the purchase of national cars.
- Starting 1 January 2026, CBU imported EV duty is set to rise 30%-100% (reinstated import tax at 10% to 30% of the car's price and excise duty at 50% to 100%). Coupled with the luxury vehicle tax exemption limit in Langkawi and Labuan, this could motivate forward purchases which in line with Kenanga target's of above 800k units of TIV sales for this year.
- Moreover, we also expect forward buying interest on the lacks of clarity on the new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 10%−30%) expected to commence on 1 January 2026.

Potential Winners

- Potential beneficiaries for the switch to more affordable fuel-efficient vehicles and absence of EV CBU incentives extension would be **MBMR (OP; TP: RM7.00)** and **DRBHCOM (UP; TP: RM0.70)** given their presence (via their Perodua and Proton marques, respectively) in the affordable market segment, and readily available local supply chain networks.
- **SIME (MP; TP: RM1.90)** will also benefit from the ending of CBU EV incentives as BYD's local presence in Malaysia is expanding with a new assembly plant in Tanjung Malim, set to open in 2026 as well as SIME also holding a 38% stake in Perodua under UMW Holdings.

Banking & Non-Bank Financials

Modest Assistance for Long-Term Pay-off

OVERWEIGHT
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Impact: Mildly Positive

Budget Measures

Income relief

- In 2026, STR recipients will receive SARA distributions RM100/mth (or RM200/mth for recipients under e-Kasih).
- All Malaysians will receive SARA distributions of RM100 in mid-Feb 2026.
- Special Financial Assistance of up to RM500 will be distributed to civil servants and RM250 to government retirees.

Financing

- To support Halal industries:
  - SME Bank offers special financing to halal PMKS with a fund totaling RM100m.
  - SJPP increases the Government guarantee for halal SME financing up to RM2b (from RM1b).
- Increase in government guarantees to RM30b (from RM20b) under SJPP to promote high-value sectors and micro-SMEs.
- Financing and grants of up to RM1b by development financial institutions to support process automation and digitalization of business operations.
- Financial assistance of up to RM350m by SKMM to broaden online business capabilities for rural enterprises.

Insurance and Takaful

- Expansion of income tax relief of up to RM3,000 on life insurance and life takaful contributions, to now include children.
- Access to EPF Akaun Sejahtera to subscribe to basic medical and health insurance or takaful plans.

Our Views

- We are mildly positive on the announced initiatives.
- While the income relief measures are relatively modest, they could help improve the financial resilience of lower-income households, indirectly supporting better debt repayment capacity. However, this is unlikely to lead to a material improvement in overall banking system asset quality, as the majority of loans are concentrated among the upper-M40, T20, and business segments. Furthermore, industry GIL remains at one of its lowest levels, at <1.45%.
- Although initiatives to support the SME segment are not directly undertaken by listed banks, they are expected to strengthen the sector's fundamentals and over time, hopefully mature into higher-quality borrowers with more sustainable growth trajectories.
- We view the broader access to insurance and takaful products through EPF Akaun Sejahtera withdrawals to be structurally positive in the long-term. It enables initial participation from underinsured segments before these customers could gradually transition toward more comprehensive and investment-linked offerings.

Potential Winners

- We believe the aforementioned measures will have broad but modest implications for the overall financial sector. The listed banks are expected to only benefit indirectly through arrangements with SJPP. The banks with a larger proportion of SMEs in their portfolio are **ABMB (OP; TP: RM4.85)** at 35% of its total books and **AMBANK (OP; TP: RM6.90)** at 22% may stand to gain from a more vibrant SME ecosystem in the long run.
- We note that the modest development expenditure in Budget 2026 of RM81b (2025: RM80b, 2024: RM90b) does not contain large government-led projects. This could result in a greater dependency on public-private partnerships to drive development, thereby benefitting the broader financial sector through more lending and debt raising requirements
- Among non-bank financials, **LPI (OP; TP: RM16.00)** and **TAKAFUL (OP; TP: RM4.40)** may also benefit from gradual improvements in insurance penetration, although medical and health-related coverage currently account for <10% of their respective portfolios.

Construction & Building Materials

Sustained Momentum from Infrastructure Projects

OVERWEIGHT
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Impact: Neutral

Budget Measures

- RM1.67b is allocated to continue works according to schedule for Pan Borneo Sabah.
- Sarawak–Sabah Link Road (SSLR) Phase 1 is expected to be completed by November 2026, and SSLR 2 by mid-2029.
- The Trans-Borneo Highway (LTB) will complete road connectivity between Sabah and Sarawak, with tenders issued as early as 1QCY26.
- The government will upgrade pavement structures along the Durin–Salim (Sibu) red line section at a cost of RM350m.
- Overall, these public infrastructure projects involve a total cost approaching RM48b.
- RM2.5b for maintaining Federal Roads, including paving potholes, installing street lights in high-risk areas, and replacing road furniture. RM700m is earmarked for G1-G4 contractors. RM5.6b in MARRIS grants to states for maintaining state roads nationwide.
- RM2.2b is allocated for the construction, maintenance, and repair of housing facilities for civil servants, including for doctors, nurses, military personnel, police, teachers, firefighters, and prison staff.
- As a long-term flood prevention measure, RM2.2b is provided to continue the implementation of 43 high-priority Flood Mitigation Plans (RTB) on schedule, including 12 new RTBs that will commence next year, such as two projects each in Johor and Terengganu, four in Negeri Sembilan, one each in Kedah, Penang, Perak and Selangor.
- Other prevention works are also implemented to avoid disasters, such as RM260m for preventing, maintaining, and repairing slopes nationwide, including Federal Roads, and RM55m for cleaning and upgrading drains and ditches in all Local Authorities.
- A total of RM3.3b is provided for rural basic infrastructure projects, including: (i) RM2.5b to construct and repair village roads and rural connection roads in Lipis of Pahang, Pitas of Sabah, Hulu Perak of Perak and Kampung Tok Adis to Kampung Banggol in Terengganu; and (ii) RM90m for bridge projects and village street lights, including the installation of energy-efficient and solar lights.
- To ensure sustainable access to clean water, a total of RM1.4b is allocated for nationwide water supply projects. This includes the construction of new water treatment plants, upgrading of distribution systems, and maintenance of existing dams.
- Key projects include the Sungai Rasau Water Treatment Plant in Selangor; Sungai Perlis Water Treatment Plant Phase 2; and pipeline and distribution upgrades in Kedah, Kelantan, and Sabah.
- Additionally, to reduce flood and erosion risks, RM2.5b is allocated to implement 84 projects for flood mitigation, river rehabilitation, and drainage system upgrades across the country.

Our Views

- Gross development expenditure of RM81b in Budget 2026 is lower than RM86b in Budget 2025 but remains sizeable. It speaks for the government's commitment to stimulating the economy amidst external uncertainties.
- While the Penang LRT and RTS were mentioned in the budget speech, the absence of MRT3 and JB ART/LRT came as a surprise to us. However, neither of them is in our forecasts.

Potential Winners

- **GAMUDA (OP; TP: RM6.13)** is in the driver's seat for the Penang LRT, and its involvement in several flood mitigation and water treatment plant projects, along with its previous experience in airport projects, should give it the upper hand in the upcoming public infrastructure bids. Given their past involvement in the Pan Borneo projects, GAMUDA, **WCT (OP; TP: RM1.25)**, and **KIMLUN (OP; TP: RM1.51)** are strong contenders for the upcoming new phases of the Pan Borneo and Sarawak-Sabah Link Road projects.
- **ENGTEX (OP; TP: RM0.62)** stands to benefit from water related projects, including the upgrading of sewerage treatment plants and drainage systems given its leading market position in large-diameter mild steel (MS) pipes and ductile iron (DI) pipes.

Consumer

A Little More to Spend

NEUTRAL
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Impact: Mildly Positive

Budget Measures

- The govt has raised its allocation for the tourism sector to over RM700m (from RM550m in 2025) in anticipation of Visit Malaysia 2026, which targets 47m visitors and RM329b in tourism revenue.
- To spur domestic travel, a special RM1,000 individual income tax relief will be granted for expenses incurred on entrance fees to local attractions and cultural programmes.
- Allocation for cash transfers under Rahmah Cash Aid (STR) and Sumbangan Asas Rahmah (SARA) programmes maintained at RM15b (vs RM13b in Budget 2025 + RM2b for one-off RM100 SARA cash aid). Maximum rate per household remains at RM4,600, comprising RM2,200 in STR and RM2,400 in SARA.
- Similar to the current scheme, all 9m STR recipients (covering 60% of the adult population in Malaysia) will continue to receive up to RM100 per month. Meanwhile, 1m STR recipients under the e-Kasih programme for the poor and extremely poor will receive up to RM200 per month, while single individuals will receive RM50 per month.
- Another round of one-off RM100 cash aid under the SARA programme will be given to all Malaysian citizens aged 18 and above, benefitting 22m individuals, to be distributed in mid-Feb 2026.
- Civil servants at Grade 56 and below, including those on contract appointments, will receive a special financial aid of RM500, while pensioners and veterans (both pensioned and non-pensioned) will receive RM250. These cash payments will be disbursed in early March 2026.
- Effective 1 Nov 2025, current excise duties on tobacco products will be raised by two sen per cigarette stick, RM40/kg for cigars, cheroots, and cigarillos, and RM20/kg for the tobacco used in heated tobacco products.
- Separately, excise duties on alcoholic beverages will be increased by 10%, also effective 1 Nov 2025.

Our Views

- We are positive on the tourism-related incentives as they would encourage higher domestic and international tourist arrivals. A stronger tourism industry should augur well for F&B players and retail operators with strong presence in tourist-centric areas.
- The continued RM15b allocation under STR and SARA, together with unchanged household benefits of up to RM4,600, should sustain disposable income for lower-income households, supporting spending on essential goods and daily necessities amid elevated living costs, although the RM15b (including RM2b for one-off RM100 SARA cash aid) would be at similar levels with 2025.
- The one-off RM100 SARA cash aid to be distributed in mid-February 2026 could provide a temporary boost to consumption ahead of major festive seasons such as Chinese New Year and Hari Raya, primarily benefitting MyKasih merchant partners like supermarkets and mini markets where the aid can be utilised. The pay-out, which is equivalent to c.4% of average per capita disposable income, is likely to support essential goods demand, but the overall impact on broader retail spending is expected to be muted, with limited spillover to discretionary players, based on past disbursement trends.

Potential Winners

- Tourism-related incentives should support F&B manufacturers such as **F&N (OP; TP: RM30.70)** and **NESTLE (MP; TP: RM85.10)**, while **QL (MP; TP: RM4.52)** via FamilyMart stands to benefit from its presence in urban and tourist-centric locations.
- Meanwhile, the key beneficiaries of the additional RM100 one-off SARA cash aid are value-focused, particularly MyKasih merchant partners that see higher footfall as consumers utilise their cash aid balances at these outlets, such as **MRDIY (OP; TP: RM2.04)**, **ECOSHOP (NOT RATED)**and **99SMART (NOT RATED),** although we observe that the latter may have in relative terms some exposure to the negative impact on alcohol sales.
- Consumer staples players with products eligible under MyKasih, including **F&N, NESTLE, QL, FFB (OP; RM2.36)** and **PWROOT (MP; TP: RM1.20),** should continue to see steady demand for essential goods, albeit without any material uplift.

Healthcare

Focusing on Public Healthcare

OVERWEIGHT
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Impact: Mildly Positive

Budget Measures

- RM46.5b compared to RM45.3b in Budget 2025 set aside for Health Ministry.
- RM1.2b allocated to maintain all public hospitals health infrastructure.
- RM755m allocated to replace outdated medical equipment and acquiring new advanced tools for emerging medical fields.
- RM100m allocated to upgrade wards in district hospitals nationwide.
- RM140m allocated to address overcrowding in public hospitals by outsourcing patients to military, university, and private hospitals.
- RM30m to reduce reliance on public hospitals, the role of health clinics is also strengthened to provide specialist services to the community.
- To ensure medicine security, the Government will pilot a public-private joint venture project for essential medicines that will increase the country's drug supply security and the competitiveness of the local pharmaceutical industry.
- To encourage private hospitals to help less-privileged patients receive healthcare, private hospitals are allowed to establish a Hospital Welfare Fund managed by a company limited by guarantee (SBMJ). Income received by the fund is tax-exempt, and parties contributing to the fund are also eligible for a tax deduction.
- MySalam initiative will continue for 2026 to further assist low-income citizens with the provision of subsidies for hospitalization andcritical illness protection.
- Allocation of RM60m in joint government and industry funds is provided to introduce affordable basic insurance products for all and implement Diagnosis Related Group (DRG).
- EPF contributors can use savings in Akaun Sejahtera (Welfare Account) to subscribe to basic medical and health insurance or takaful (MHIT) plans.
- Government approves 4,500 contract doctors to be offered permanent positions next year.
- Specialists will have an on-call allowance, raised from RM250 to RM350.
- Build new hospitals, clinics and additional blocks including in Northern Region Cancer Centre in Kedah, new blocks at Hospital Pontian in Johor, Hospital Banting and Hospital Sungai Buloh in Selangor as well as advanced surgical block at Universiti Sains Malaysia's specialist hospital in Kubang Kerian, Kelantan.
- The consultation fee rate for general medical practitioners has not been reviewed since 2006. The Government agrees to reset the consultation fee rate between RM10 and RM80, compared to RM10 to RM35 previously. This provides more flexible space to commensurate with the level of service offered, while maintaining a minimum rate that does not burden the people.

Our Views

- The majority of the incentives directly benefit public healthcare, with little impact on the private healthcare sector. Typically, public healthcare expenditure accounts for about 2%-2.5% of GDP.

Potential Winners

- In terms of beneficiary, we believe **PHARMA (MP; TP: RM0.17)** is expected to benefit from the allocation to purchase medicines specifically from companies that make new domestic investments to manufacture pharmaceutical products and capitalise on newly build hospitals as potential customers over the longer term. Generally, Government concession accounts for an estimated 50% of PHARMA's topline.
- We believe **DUOPHARMA (OP; TP: RM1.73)** being the dominant local manufacturer of generic drugs in terms of sales volume and value in Malaysia with established household brands will be prime beneficiary. DUOPHARMA supplies pharmaceutical products and over-the counter (OTC) supplements to the public sector via government tenders or the Ministry of Health's Approved Product Purchase List (APPL) , direct tender and local purchase orders which is on a 3-yearly cycle.

- Under APPL contracts, the group supply to government hospitals, Klinik Kesihatan, dental clinics and medical centres in public institutions of higher learning via the government-appointed logistics and distribution concession holder. Within the private sector, DUOPHARMA's key customers are private clinics, retail and independent pharmacies and private hospitals which are served by in-house sales team. DUOPHARMA OTC products are widely accessible through local pharmacy stores such as Guardian, Watsons, Caring Pharmacy and independent retailers, with >1,500 retail stores presence nationwide.
- We are neutral on the allocation to control overcrowding in public hospitals via cooperation with outsourcing patients to other hospitals including the private sector. Although this is expected to benefit both **KPJ (MP; TP: RM2.50)** and **IHH (MP; TP: RM8.50)**, the impact is only mildly positive as the allocation is not significant against the overall revenue in Malaysia.

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Oil & Gas

Focus Stays on Energy Transition

NEUTRAL
↔

By Lim Sin Kiat, CFA I limsk@kenanga.com.my

Impact: Neutral

Budget Measures

- Malaysia is also focusing on developing the ASEAN Power Grid to interconnect cross-border electricity grids with neighbouring countries and to strengthen regional energy trade.
- Based on MOF's fiscal report published alongside Budget 2026, the government expects a material drop in dividends from Petronas in 2026 amounting to RM20b, from RM32b in 2025. The Malaysian government also targets a Brent crude price of USD60-USD65/bbl for 2026.
- Energy transition is one of the three strategic growth sectors alongside semiconductors and digital. KWAP's Dana Pemacu worth RM1.2b is structured to co-invest with private fund managers to accelerate capital deployment into energy transition, food security and digital economy.
- Targeted aid continues for diesel usage for public transport, fishermen and logistics. The price for gasoline is also fixed at RM1.99/litre for eligible Malaysians under BUDI95 database.

Our Views

- The cut in dividend was a welcomed surprise to us as this eases Petronas group's cash flow pressure. However, we are at this juncture still unsure how much activities in the upstream segment will pick up due to uncertainties from the PETROS dispute and weakening crude oil prices hence we remain cautious on local upstream services subsector. We still anticipate a YoY drop in Petronas group's capex in 2026. The target oil price of USD60-USD65/bbl for 2026 is also roughly in line with our Brent target of USD67/bbl.
- The diesel and gasoline prices were already announced before the Budget, and this solidifies the fact that Malaysian gasoline volume will remain resilient in the near to medium term as the majority of the users will still be subsidized. This ensures that petrol station operators will no longer have overhang on their sales volumes until the next Budget.
- The RM1.2b fund by KWAP covers a large swath of areas in energy transition as it could be in both private and public markets. We believe this could partially help to fund early-stage energy transition start-ups in Malaysia including hydrogen tech related companies alongside the initiatives from the Sarawak state.

Potential Winners

- The subsidy rationalisation announcement convinces us that **PETDAG (MP; TP: RM21.20)** would see its gasoline volume overhang removed completely at least until Budget 2026 as the slightly cheaper subsidised price for RON95 would still be conducive for eligible Malaysians to drive ICE vehicles.
- **YINSON (NOT RATED)** could benefit from KWAP's Dana Pemacu through future rounds of potential fund raising for its green energy businesses (i.e. EV leasing, EV charging and etc) which might reduce further funding burdens from YINSON but at this juncture we are unsure whether the fund will be directed to YINSON's assets; hence, the view remains speculative.

Plantation

Neutral, More For Smallholders

NEUTRAL
↔

By Khoo Teng Chuan I khootc@kenanga.com.my

Impact: Neutral

Budget Measures

- Allocation of RM63m to promote sustainable certification and defence against anti-oil palm campaign.
- To enhance automation and mechanisation, RM20m will be provided to support start-ups producing automation or mechanisation products in collaboration with the Malaysian Palm Oil Board (MPOB) and major oil palm companies.
- RM120m will be set aside to help smallholders of various crops, including subsidies to replant old oil palm areas.
- 100% income tax exemption for 10 years is proposed for new food production projects while those undertaking expansion for similar project to also enjoy 100% income tax exemption but for only five years.
- RM55m will be allocated to support fruit farmers.

Our Views

- The incentives and supports for the plantation sector are positive. However, the target is more for the smallholders rather than the listed plantation companies. For example, many listed plantation companies are already certified either under RSPO or MSPO and both in the case of the larger integrated players.
- Nonetheless, subsidies to encourage replanting among small holders will benefit listed planters such as SDG, KLK, IOI or GENP which sell oil palm planting materials such as seeds.
- The tax exemption for new food production may benefit planters such as IOI which recently started planting coconut trees. However, it is not clear whether IOI's coconut project will qualify but even if it does, the impact on the group core net profit is small (c.1%).

Potential Winners

- The overall impact on the listed plantation sector is neutral.
- **Valuation update:** Our earnings forecasts, valuation methodology, target prices, and ratings are unchanged. Nonetheless, a robust CY25 is expected on strong CPO prices. For CY26, expectation of improving edible oil supply should lead to softer CPO prices; hence, earnings are expected to moderate or stay flat. We believe current undemanding valuations (1.1x PBV, 14−15x PER) already reflect this. However, with no strong upside catalyst insight, we maintain a **NEUTRAL** call for the sector. Our picks are **KLK (OP; TP: RM24.00)** and **PPB (OP; TP: RM12.50)** for recovering earnings and **HSPLANT (OP; TP: RM2.40)** for >5% dividend yields backed by RM0.6b (RM0.74 per share) in net cash. We also like **TSH (OP; TP: RM1.55)** for its expanding new upstream planting, while maturing Indonesian estates should underpin growth for **UMCCA (OP; TP: RM6.00)**.

  Our valuation basis, TP and recommendation for consumer stocks are summarised in the table below:

Changes to Valuation Basis, TPs and Recommendations

Company	Valuation				Target Price (RM)			Recommendation		
	Basis	After	Before	Chg	After	Before	Chg	After	Before	Chg
GENP	PBV (x)	1.0	1.0	↔	5.10	5.10	↔	MP	MP	↔
HSPLANT	PBV (x)	0.9	0.9	↔	2.40	2.40	↔	OP	OP	↔
IOI	PBV (x)	2.0	2.0	↔	4.20	4.20	↔	MP	MP	↔
KLK	PBV (x)	1.7	1.7	↔	24.00	24.00	↔	OP	OP	↔
PPB	PER (x)	16.0	16.0	↔	12.50	12.50	↔	OP	OP	↔
SDG	PBV (x)	1.7	1.7	↔	1.28	1.28	↔	MP	MP	↔
TAANN	PBV (x)	0.9	0.9	↔	4.20	4.20	↔	MP	MP	↔
TSH	PBV (x)	0.9	0.9	↔	1.55	1.55	↔	OP	OP	↔
UMCCA	PBV (x)	0.9	0.9	↔	6.00	6.00	↔	OP	OP	↔

Source: Kenanga Research

Property

Targeted Measures

OVERWEIGHT
↔

By Clement Chua I clement.chua@kenanga.com.my

Impact: Neutral

Budget Measures

- Tax deduction of 10% (up to RM10m) on eligible expenditures to renovate and convert commercial buildings into residential premises.
- SJKP guarantee allocation increased to RM20b (from RM10b) to more readily assist self-employed and gig workers.
- Housing loan guarantees of up to 120% (RM1b) for contract staffs' first housing loan under the SJKP, while Bank Simpanan Nasional to provide RM500m first home financingfor contract civil servants.
- Expansion of LPPSA maximum eligibility limit to RM1m, extended until 31 Dec 2026 for civil servants under the age of 30.
- Completion 33,000 affordable units through the Residensi Rakyat and Rumah Mesra Rakyat programs in Kelantan and Johor.
- Two year extension (until 31 Dec 2027) of the full stamp duty exemption for the first time home buyers priced <RM500k.
- Flat stamp duty rate of 4%-8% for the transfer of residential properties by non-citizen and foreign entities, except for Malaysian permanent residents.

Our Views

- While the abovementioned measures provide offer some support to first-home buyers, we believe they are insufficient to materially stimulate the property market. Demand for affordable housing is likely to remain subdued in the near term, constrained by broader household expenditure tightening and cautious consumer sentiment.

Potential Winners

- No meaningful measures for mass market developers. We continue to lean towards our preference to higher-end developers which are less dependent on government support for development projects.

REITs

Welcoming Visit Malaysia 2026

NEUTRAL
↔

By Chris Tong I christong@kenanga.com.my

Impact: Mildly Positive

Budget Measures

- The targeted subsidies for RON95 petrol introduced in 2HCY25 has shown that most Malaysians are unaffected, even the impacts to the top 15% income group are negligible.
- A higher amount of RM700m (from RM550m in the previous budget) is allocated to intensify promotions and tourism activities to welcome Visit Malaysia 2026.

Our Views

- Minimal impacts from RON95 Petrol subsidy rationalisation may ease investors' concerns on consumer sentiment.
- With higher allocation for tourism than previous year, retail malls and hotels in tourist spots will continue to be supported.

Potential Winners

- **KLCC (OP; TP: RM8.93)'s** Suria mall and SUNREIT **(MP; TP: RM2.22)'s** hotel segment will benefit from continuous increased tourist arrivals in 2026 underpinned by Visit Malaysia 2026.

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Seaport & Logistics

Heavy Burden

NEUTRAL

↔

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

Impact: Neutral

Budget Measures

- The Ministry of Transport is in the final stages of setting speed limit regulations for heavy vehicles.
- Transport and logistics companies will continue to enjoy subsidised diesel.
- The targeting of diesel subsidies has saved RM5b. Moreover, sectors such as public transportation, fishermen, and certain logistics will continue to receive subsidized diesel prices.
- The efficiency of the logistics sector is enhanced to ensure that economic activities move faster, are more cost-efficient, and benefit investors, industries, and the people.
- The Selangor state government, together with MAHB, is also developing the 600-acre Selangor Aero Park (SAP) in Sepang as a regional logistics and cargo hub.
- The upgrade of the Electric Double Track Railway at Lembah Klang Phase 2 is expected to be fully completed by 2029. This project will connect Bandar Tasik Selatan to Seremban and Simpang Pelabuhan Klang to Port Klang, with a construction cost of RM4.1b.

Our Views

- Seaports under Port Klang Authority will indirectly benefit from the improvement in infrastructure to Port Klang.
- Operating cost of logistics companies will remain stable as they will continue to enjoy subsidised diesel.
- More stringent restriction to heavy vehicles movement could reduce average revenue per trip.

Potential Winners

- **SWIFT (UP; TP: RM0.32)** will continue to enjoy subsidised diesel, but average revenue per trip could be affected by the stricter regulation on heavy vehicles, thus overall impact is neutral.
- **WPRTS (OP; TP: RM6.00)** will indirectly benefit from the improvement in infrastructure to Port Klang.

Technology

AI Nation, Switched On

OVERWEIGHT

↔

By Cheow Ming Liang I cheowml@kenanga.com.my ;Tan Woon Pin / woonpin@kenanga.com.my

Impact: Positive

Budget Measures

- RM700m compared to RM550m in Budget 2025to boost promotion and tourism activities.

NSS & Semiconductor Measures

- RM180m NIMP Industry Development Fund to finance programmes in high-impact sectors such as pharmaceuticals, semiconductors, AI, digital and sustainability.
- Khazanah and KWAP will invest RM550m in the semiconductor ecosystem to strengthen collaborations between local firms and multinationals.
- Under the National Semiconductor Strategy (NSS), BPMB will provide RM500m in loans to support high value-add activities such as R&D, particularly by local companies supporting the E&E ecosystem.
- Malaysia will launch 'SemiconStart', an incubator programme by MTDC with global incubators, to help early-stage semiconductor start-ups obtain guidance, access to global financing, discounted prototyping, and customer networks.

AI & Data Infrastructure

- The National AI Office (NAIO) and the first AI Faculty at UTM will be strengthened. Universities will advance AI in critical disciplines such as semiconductors (USM), medicine (UM), and cryptology (UPM), including at MMU.
- MCMC (SKMM) will build a Sovereign AI Cloud with RM2b investment and set up an AI Transformation Centre with MMU and the Centre of Excellence in Ethics for Emerging Technologies.
- RM53m Malaysia Digital Acceleration Grant for block chain, AI, quantum; MIMOS to develop block chain and deep fake detection.
- Additional 50% tax deduction for SMEs' AI/cybersecurity training recognised by NAICI (TalentCorp & MyDigital)

Talent & TVET (AI/semiconductor – aligned)

- Technical and Vocational Education and Training (TVET) allocation will increase to RM7.9b. HRD Corp gets RM3b for 3m training places, especially high-tech, digital and energy transition.
- PTPK (Skills Development Fund Corporation) will provide RM650m financing for >25,000 trainees, particularly in NIMP fields such as AI, EV and semiconductors.
- RM200m from Khazanah for the K-Youth Programme, providing on-the-job training to 11,000 non-graduate youths across strategic sectors including semiconductors, machinery, MRO, digital, and advanced technology.

Start-up & Venture Support (Tech)

- KWAP + Khazanah "Pioneer/Seed" funds raised to RM750m (from RM550m) aligned with Malaysia VC Roadmap.
- VentureTECH RM105m fund to grow Bumiputera equity in high-tech.
- Tax enhancements proposed for venture capital for 10 years (special tax rate + dividend exemption).

Others

- Investor Pass (MIDA) offering Multiple Entry Visa (up to 12 months) for foreign investors in priority sectors such as E&E, with MIDA proactively extending offers to multinationals and prospective investors.
- Outcome-Based Tax Incentive Framework to be fully rolled out in 2026 (manufacturing in 1Q, services in 2Q), prioritising high-growth activities that generate skilled jobs and reduce regional inequality.
- RM200m Strategic Co-Investment Fund will provide matching funds to SMEs and mid-sized firms that strengthen key sector supply chains, via equity crowdfunding (ECF) and peer-to-peer (P2P) platforms.
- MyDigital ID targets 15m users by end-2025. This initiative will be expanded to key sectors such as finance, telecommunications, e-commerce and healthcare.

Our Views

- Budget 2026 aligned with our expectations, delivering favourable measures to accelerate the country's NSS ambitions.
- Budget 2026 reinforces NSS policy continuity and nudges the ecosystem upstream. The BPMB RM500m NSS facility for R&D/high-value-add, RM550m Khazanah–KWAP ecosystem capital, and SemiconStart collectively ease long-standing bottlenecks in risk capital and prototyping for Malaysia's fabless/design, IP, and advanced-packaging ambitions. We anticipate more pilot runs and IP spin-outs, a positive read-through for listed OSAT/ATE/automation names pivoting to higher-margin engineering services.
- Hyperscaler builds (USD2.2b Microsoft, USD2.0b Google) and the Sovereign AI Cloud should drive sustained demand for servers, accelerators, optics, power & thermal, and by extension test handlers, burn-in, sockets, vision/optics and automation segments with established OSAT and ATE players. We see a multi-year equipment/services cycle aligned to data-centre and AI roll-outs.
- TVET RM7.9b, HRD Corp RM3b, and PTPK RM650m (AI/EV/semis) provide funding for technicians, engineers and coding/AI tracks. Over time this should ease skilled-labour bottlenecks, improve utilisation and cycle-times, and support migration into higher-complexity test & packaging.
- An additional 50% tax deduction for AI/cybersecurity upskilling should prompt smaller E&E suppliers to formalise AI-assisted QC and predictive maintenance, lifting productivity and margins over the medium to long term.

Potential Winners

- We believe the 13 potential national champions that highlighted by the Government earlier will be the key beneficiary, among them are **KGB (OP, TP: RM6.15), Inari (OP, TP: RM2.56), Carsem (MPI, MP, TP: RM27.60), OPPSTAR (MP, TP: RM0.50)**, Pentamaster (Not Rated), Vitrox (Not Rated), Greatech (Not Rated), SkyeChip, Infinecs, Experior.
- The anticipated rise in demand for ICT equipment and software is expected to benefit **VSTECS (Not Rated) and SNS (Not Rated)**. In addition, **LGMS (MP, TP: RM0.86)**, which is a leader in cybersecurity services, also stands to gain from the growing demand for cybersecurity solutions.
- Wider digital-ID adoption should accelerate eKYC and secure online services, benefiting software integrators, cybersecurity providers **(LGMS)** and ICT distributors **(VSTECS, SNS)** as agencies and enterprises standardise identity, access and data-sharing.
- **GAMUDA** and **DNEX (Not Rated)** are likely potential beneficiaries of the RM2b Sovereign AI Cloud project, given their partnership to offer air-gapped Google Distributed Cloud (GDC) services that comply with Malaysia's data sovereignty requirements.

Tourism

Paving the Way for Visit Malaysia 2026

NEUTRAL
↔

By Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

Impact: Mildly Positive

Budget Measures

- RM700m compared to RM550m in Budget 2025to boost promotion and tourism activities.
- RM500m fund to promote will fund the Visit Malaysia 2026 campaign.
- RM60m to support promotional activities, marketing efforts, and the organisation of tourism and cultural events.
- RM50m is allocated to assist arts and heritage entrepreneurs in generating income, including local craftsmen, batik makers and weavers.
- RM20m to strengthen health tourism programmes under the Malaysia Healthcare Travel Council.
- RM50m in matching grants has been allocated to encourage more international and charter flights to Malaysia.
- RM25m will be used to enhance tourism facilities, including the preservation of Unesco sites such as Gunung Mulu National Park in Sarawak, Lenggong Valley in Perak, and FRIM Forest Park in Selangor
- Tour operators and event organisers will also enjoy income tax exemptions of up to 100% for international-level tourism, cultural and business events that attract foreign participants.

Our Views

- The budget initiatives will boost tourism, benefitting the aviation sector.

Potential Winners

- **CAPITALA (MP; TP: RM0.88)** expects sustained demand in 2HCY25 driven by peak summer period in North Asia, regional festivities and long weekends in Malaysia and other core markets. It expects this to benefit AOCs especially in Malaysia. It has yet to see the same rebound from China into Thailand, but is optimistic for Thailand to rebound from 4QCY25 onwards. AirAsia Group is refining its network heading into the year-end peak season, reallocating capacity towards resilient domestic and intra-Asean routes to sustain a healthy load factor and connectivity across key markets. In Thailand, agile capacity management and the dual-airport strategy at Bangkok Don Mueang and Suvarnabhumi are supporting market recovery. The Group is targeting five aircraft deliveries in 3QFY25 and one in 4QFY25. It expects by end-3QCY25 to have 213 active aircraft. By end of 4QCY25, it expects all aircraft out of storage. Over the next three years, it aims to add 4-6 aircrafts per year, ending with 236 narrow body aircraft in 2027.
- **GENM (MP; TP: RM2.00).** Located just an hour's drive away from Kuala Lumpur, Resorts World Genting (RWG) at Genting Highland hill-top should be a potential beneficiary of Visit Malaysia 2026. GENM is also a leading contender in a New York City (NYC) casino license bidding, and its earnings should be on the mend over FY25-26. However, valuation is still clouded by potential funding gap if the NYC casino project materialises along with a new competitive landscape and growth prospects of the NYC gaming market in the event of slower consumer spending; hence, our MP recommendation.

Utilities & Renewable Energy

Sunny Outlook Intact

OVERWEIGHT
↔

By Teh Kian Yeong I tehky@kenanga.com.my

Impact: Positive

Budget Measures

- Malaysia is also focusing on developing the ASEAN Power Grid to interconnect cross-border electricity grids with neighbouring countries and to strengthen regional energy trade.
- TENAGA and PETRONAS are collaborating with ASEAN partners to accelerate the Vietnam–Malaysia–Singapore project, which will transmit renewable energy from southern Vietnam to Malaysia and Singapore.
- NETR continues to be driven by industry players, supported by the RM150m National Energy Transition Fund. Large-scale solar generation projects with nearly 2GW capacity are being implemented under LSS 6, involving private investment of RM6b.
- GLICs and GLCs are mobilising RM16.5b investments in 2026. For example, UEM Lestra is developing solar farms in Segamat, Melaka, and Selangor, and collaborating with PLUS to expand EV charging facilities.
- Renewable energy sources such as biogas, biomass, and mini-hydro will be increased through an additional 300 MW quota under the Feed-in Tariff program, expected to begin operations as early as 2028.
- The Corporate Renewable Energy Scheme (CRESS) is expected to attract RM3.5b investments via companies generating 500 MW.
- Although electricity supply regulation was fully handed to Sabah in January last year, the Federal Government continues to allocate RM1.2b to ensure supply reliability.
- Landslides in Penampang had severed two high-voltage transmission lines, disrupting power for 230,000 users on Sabah's east coast. Immediate restoration measures were taken. For long-term resilience, the Federal Government is providing RM765m financing for the Southern Link Transmission Project.

Our Views

- The NETR is making solid progress towards its net zero target by 2050.
- We expect the unveiling of the RM6b in LSS6 amounting to continuity of large scale solar programmes to the tune of 2GW, similar to LSS5+. There is also more clarity in our view with the Solar Accelerated Transition Action Programme capacity of 500 MW, which may spur more take-up. This compares to NEM Rakyat programme of 700MW, and initially launched at 500MW.

Potential Winners

- **TENAGA (OP; TP: RM17.10)** will benefit from: (i) RE power generation growth, particularly solar as well as re-powering of Paka and Kapar power plants into hydrogen-fired plants, and (ii) investment in grid infrastructure to expand the transmission and distribution of RE power which fetches a regulated return.
- **SLVEST (OP; TP: RM1.91)** and **SAMAIDEN (OP; TP: RM1.51)** are expected to benefit from the NETR with the demand in CRESS now known to be up to RM3.5b as announced in the Budget, whereas we expect the market pie for large scale solar players continue to stay buoyant with the RM6bn LSS6 programme next year.

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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